



CITY COUNCIL AGENDA REPORT

MEETING DATE: AUGUST 19, 2008

ITEM NUMBER: **VIII-2**

SUBJECT: RESIDENTIAL REMODELING & BUILD GREEN INCENTIVE PROGRAMS

DATE: AUGUST 7, 2008

FROM: DEVELOPMENT SERVICES DEPARTMENT

PRESENTATION BY: DONALD D. LAMM, AICP, DEPUTY CITY MGR., DEV SVS DIRECTOR

FOR FURTHER INFORMATION CONTACT: KHANH NGUYEN (714) 754-5277

RECOMMENDATION:

Consider options for the Residential Remodeling Incentive Program (RRIP) and Build Green Incentive (BGIP) program.

BACKGROUND:

At the City Council meeting on June 17, 2008, the City Manager indicated that staff would explore and return to Council for review of the two programs, and present options for combining, deleting, or modifying the programs.

Residential Remodeling Incentive Program:

To encourage greater reinvestment in our community, Council implemented the Residential Remodeling Incentive Program in Fall 2005 (RRIP1), Fall 2006 (RRIP2), and Fall 2007 (RRIP3). Costa Mesa homeowners responded by installing new roofs, remodeling kitchens, adding extra bedrooms, and constructing swimming pools. In total, \$36 million in improvements were constructed during these three incentive programs.

Should Council believe another year of this incentive program is needed, staff suggests the program re-focus on its original intent. Therefore, staff proposes that any new RRIP be limited to home remodeling (up to \$50,000 in valuation) and small addition projects (up to 500sf), to encourage re-investment and enhancement of a property's value. Therefore, waiver of permit fees for routine maintenance work, such as water heater replacement and re-roofing, would not be included since these repairs should be performed regardless of City economic incentives.

With respect to routine maintenance work, the "Build Green Incentive Program" would still offer waiver of fees for work meeting energy savings requirements of "Build Green." For example, replacement of a standard roof would not receive the fee waiver incentive, but re-roofing using an energy saving 'cool roof' or Class A assembly, or replacement of a water heater with high efficiency system such as tankless water heater, would all qualify for fee waivers under "Build Green".

Currently, no other jurisdiction in Orange County has an active residential remodeling incentive program.

Build Green Incentive Program:

Last year City Council expressed interest in adopting incentives to encourage sustainable development and “green building” construction. Staff was then directed to work with residents, and the development community, to create a Green Building incentive program. Staff, residents, and major stakeholders, also known as the Green Team, collaborated last summer to formulate a comprehensive Sustainable City Building Policy and a Build Green Incentive Program (BGIP) for private development. A Sustainable “Municipal” Green Policy was adopted in September 2007.

The BGIP was implemented in September 2007 through June 2008, where Costa Mesa homeowners and businesses invested more than \$2.2 million in “green” improvements. Green installations are building or mechanical upgrades to high energy performance, water wise, material efficient, above Building & Energy codes, and/or friendly to the environment. The intent of the City’s program was to encourage residents and businesses to think and build green.

Overall, the number of residential solar electric permits increased from 1 every other month to 2 per month during the September 2007-June 2008 incentive period. One homeowner and the Orange Coast College benefited from our program by seeking green certification through LEED (Leadership in Energy and Environmental Design). Many other green installations included tankless water heaters, Energy Star windows and doors, ‘cool’ roofs or Class A roofing, skylights or solartubes, etc..

Huntington Beach currently has a green incentive program, which began in November 2007, for “Residential Energy Efficient Units” where permit fees are waived for residential solar electric, solar water heating, tankless water heaters, and high efficiency AC or HVAC units. Mission Viejo has a similar program, which began in April 2006 and is now permanent, but their “no fee” permit incentives are applicable to both residential and commercial projects.

SUMMARY ANALYSIS

In staff’s opinion, the features listed below are key incentives for Council consideration should you direct that another RRIP or BGIP be offered this fall or next spring.

- Construction plan check, building, electrical, mechanical, and plumbing permit fees are waived for applicable projects.
- Express Planning and Building plan checks are provided. As such, both RRIP and BGIP projects are given priority over all other plans in processing.
- Preferred morning or afternoon inspections are offered.
- A “new” feature staff recommends, if you schedule another program, is the mailing of a letter to homeowners, explaining how much they saved and when the permit was issued to a contractor. This will ensure homeowners are aware of the fee waiver.

Residential Remodeling Incentive Program:

Attachment 1 summarizes the cost of the three previous RRIPs, and based on the trend from the previous programs, the anticipated cost for another RRIP is \$533,000. By limiting RRIP to "only" remodeling and small addition projects, RRIP can be reduced to \$250,000. Currently, approximately 15% of our inspection workload/labor is still dedicated to completion of RRIP 1, 2 & 3 projects last issued permits in December 2007.

Build Green Incentive Program:

The City waived over \$35,000 in fees from September 2007-June 2008 for the BGIP. The estimated expenditure for implementation is \$15,000 (for advertisement and marketing, training, supplies, and consultant to program Permits Plus system to track projects), plus labor for plan check, permit issuance, and inspection.

Thus, the cost for the BGIP1 was approximately \$50,000, plus the labor cost, which has not been quantified. Staff estimates the cost for a BGIP2 may increase to \$75,000, as more green technologies are made available and more homeowners are made aware of the program. Again, these costs do not include labor costs.

FISCAL REVIEW

As a result of the "RRIP" program(s), over \$840,000 in fees have been waived. Also, implementation costs have exceeded \$320,000. For the "Green" program, fee waivers have totaled over \$25,000. All told, the two programs have cost the City a total of \$1.2 million through fee waivers and staff costs to date.

Further, staff has no means to identify the number of homeowners that ultimately benefitted from the fee waivers or what portion of the savings from the fee waivers that was passed through to the homeowner for work performed by contractors. In some cases, staff believes that the homeowner still paid the permit fees to the contractor even though the fees were waived for the work permitted.

Many of the improvements performed as a part of the RRIP program are considered maintenance or remodeling projects and will not result in a reassessment of the property's taxable value. Therefore, no new tax revenue is generated from these improvements. If the property is sold at some future time, the improvements made pursuant to this program may or may not add to the market price of the home. Typically, "comparable sales" in the area play a key role in determining market price even more so than amenities within the structure itself.

None of the improvements made pursuant to the "Green" program will result in a reassessment of the property's taxable value.

For each \$1 of tax collected by the County Treasurer, the City of Costa Mesa receives \$0.11. Even if ALL of the \$35 million in improvements made to date resulted in a property reassessment and increased tax revenue, the City of Costa Mesa would receive only \$38,500 annually. It would take over 30 years for the City to recoup the \$1.2 million the program has cost already if ALL of the improvements made to date resulted in reassessments.

It is estimated that only one fourth (1/4) of the RRIP improvements made may result in reassessments. Therefore, the program costs already incurred would take more than a lifetime for the City to recover under this assumption.

LEGAL REVIEW

Legal review is not required.

ALTERNATIVES CONSIDERED

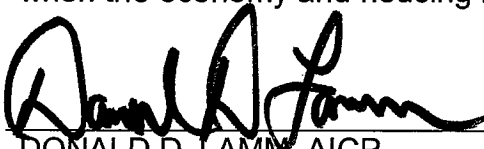
Council may consider the following alternatives:

1. Reauthorize both programs with similar timeframes as last year, without any modification to the type of projects qualifying for a fee waiver. Both programs can run simultaneously.
2. Reauthorize both programs but limit RRIP to home remodeling not exceeding \$50,000 in valuation, and/or small additions up to 500 s.f. Again, both programs can run simultaneously.
3. Defer either or both programs for consideration in next year's City budget, or when the State economy stabilizes and City revenues start increasing at a rate greater than inflation.

CONCLUSION

The Residential Remodeling and Build Green Incentive Programs implement Council's desire to encourage a greater number of homeowners to invest in their properties.

However, during this uncertain economic time, Council should decide whether these programs are still needed and economically viable, or whether to defer until future years when the economy and housing market stabilizes.


DONALD D. LAMM, AICP
Deputy City Mgr.- Dev. Services Dir.


KHANH NGUYEN, CBO
Building Official


MARC R. PUCKETT
Director of Finance

Attachment 1: Budget Discussion Item

DISTRIBUTION: City Manager
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File: 081908RRIPGREEN

Date: 080708

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2008 AUG 12 AM 9:47
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CITY OF COSTA MESA, CALIFORNIA

DISCUSSION ITEM

DISCUSSION ITEM: RRIP and GREEN Program

RECOMMENDED ACTION: Discuss and provide direction whether to include the RRIP4 and GREEN2 Programs in the FY 2008-2009 Budget.

BACKGROUND AND ANALYSIS:

In July 2005, the City Council approved the first Residential Remodeling Incentive Program (RRIP) to give homeowners an incentive to remodel their homes and reinvest in the community by waiving building and construction permit fees. Below are the monitored values of past programs. Not included are salary and benefit costs of technicians, plan checkers and inspectors related to the program; time logs had not been kept for past programs.

	<u>Period</u>	<u>Fees Waived</u>	<u>Implementation Cost</u>	<u>Estimated Improvements</u>
RRIP1	Fall 2005	\$350,000	\$230,000	\$15 Million
RRIP2	Fall 2006	\$290,000	\$58,000	\$11 Million
RRIP3	Fall 2007	\$200,000	\$25,000	\$9 Million

Based on discussion with staff, for technicians and plan checkers, it is estimated that about two-thirds of their time is spent on the RRIP program during the 3 ½ months it has been offered. For inspectors, based on logs of total inspections and RRIP inspections, about 15% of their time is spent on the RRIP inspections throughout the year. Using these estimates, the total cost for the FY 08-09 program should it be offered are:

	<u>RRIP4</u>
Fees Waived	\$175,000
Implementation Costs	26,000
Salary and Benefit Costs	332,000
Total Estimated Costs	<u>\$533,000</u>

In August 2007, the City Council approved the Build Green Incentive Program (GREEN) to encourage private property owners to think and build green by waiving plan check and inspection fees for projects that include Green Building elements. Since both the RRIP and GREEN programs have similar requirements and both were initiated on September 1, 2007, activities from September 1 thru December 15 that would otherwise fall under the GREEN program were recorded under the RRIP program, resulting in a lesser impact of the GREEN program. As of April 30, the monitored values are as follows:

	<u>Period</u>	<u>Fees Waived</u>	<u>Implementation Cost</u>	<u>Estimated Improvements</u>
GREEN	Fall 2007	\$24,000	\$0	\$1.5 Million

Staff is suggesting a discussion of both the RIPP and GREEN programs not simply from a fiscal standpoint but also in light of their effectiveness

1. Given current economic conditions and the slump in construction, should the City continue to waive building fees and subsidize inspection and plan check costs?
2. Is it timely to reassess the effectiveness of the RIPP program now that it has been in effect for 3 years? With much of the work now being processed constituting maintenance as opposed to improvement, is the program still meeting its objective?
3. If the GREEN and RIPP programs are to be continued, should consideration be given to their scheduling or other changes that do not incentivize property owners to defer projects to the last quarter of the calendar year?

